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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Implement the)
Commission's Procurement Incentive Framework)
And to Examine the Integration of Greenhouse Gas)
Emissions Standards into Procurement Policies)

Rulemaking 06-04-009
(Filed April 13, 2006)

**ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION
OF THE STATE OF CALIFORNIA**

In the Matter of: Order Instituting)
Informational Proceeding on a)
Greenhouse Gas Emissions Cap)

Docket 07-OIIP-01

**REPLY COMMENTS OF THE MODESTO IRRIGATION DISTRICT
ON INTERIM OPINION ON GREENHOUSE GAS
REGULATORY STRATEGIES**

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March 4, 2008

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In accordance with Rules of Practice and Procedure of the Public Utilities Commission ("CPUC") of the State of California, the Modesto Irrigation District ("Modesto ID") hereby files these Reply Comments ("Replies") on the proposed "Interim Opinion on Greenhouse Gas Regulatory Strategies" issued February 8, 2008 (the "Proposed Decision" or "PD"). Modesto ID also files these Replies with the California Energy Commission ("CEC") in Docket 07-OIIP-01.

Numerous parties submitted comments on the Proposed Decision. Modesto ID responds to several points raised in those comments.¹ Any failure to address a specific point does not indicate Modesto ID's agreement or disagreement with another party. First, Modesto ID joins with those parties that strongly encourage the CPUC and CARB to delay implementation of a California only cap and trade system to allow for development of regional and national programs. Several parties seek clarifications regarding identification of the "deliverer" entity

¹ Modesto ID takes this opportunity to clarify a statement in its Opening Comments filed herein. The last sentence of the second paragraph on page 5 refers to data regarding Northern California POU's, as supported by the Comments of NCPA, on pages 12-13.

having ultimate compliance obligations, and Modesto ID urges the CPUC to address these issues before adopting any recommendations for CARB. Second, Modesto ID supports revisions to the PD proposed by parties recognizing that additional energy efficiency and renewable resources procurement mandates are unnecessary and would be counterproductive to the goals of AB 32. Third, although Modesto ID believes that the PD properly defers all aspects of emission allowance allocation, Modesto ID agrees with parties that argue the full value of such allowances must be used to minimize the cost impact of emission reductions on all ratepayers. Fourth, points raised by several parties supporting inclusion of the gas sector in a cap and trade system highlight the importance of ensuring that costs incurred as a result of shifting load between sectors must be borne by the sector receiving the emission reductions.

I. Coordination With Regional and Federal Approaches to GHG Reduction Programs is Necessary.

In their comments, several parties have urged the CPUC to delay implementation of any cap and trade market system in order to ensure coordination with emerging regional and federal GHG reduction programs. Modesto ID agrees. It is critical that California's implementation of AB 32 recognizes efforts being undertaken by the Western Climate Initiative and on a federal level. In order to avoid undue cost impacts to ratepayers California must design a program that achieves targeted reductions without imposing requirements that duplicate, overlap or are inconsistent with regional or federal programs. Thus, California must move cautiously. A small delay in designing and implementing a market system in California would permit regional and federal efforts to advance, providing clearer signals of their regulatory direction. If California fails to coordinate its program with such regional and national efforts responsible entities and their ratepayers will likely be burdened by multiple layers of regulation creating the unnecessary cost of supporting both "belt" and "suspenders."

II. Additional Energy Efficiency and Renewable Resource Procurement Mandates are Counterproductive to the Goals of AB 32.

Many parties have advocated for a mandated 33% renewable portfolio standard (RPS) to be achieved by 2020. Such mandate is short-sighted and unnecessary. Modesto ID does not question that energy efficiency and renewable resource procurement are crucial elements of achieving the AB 32 goals. However, increasing mandates will reduce the ability of utilities to take advantage of a full compliment of emission reduction opportunities. Moreover, additional mandates are not necessary to ensure that utilities make every effort to capture available energy efficiency and renewable resource emission reductions. Proponents of such mandates rely on reports that AB 32 goals cannot be met without a 33% RPS; assuming these reports prove to be accurate, such RPS will naturally and inevitably be achieved in order to comply with AB 32. In other words, GHG emission reductions will determine the level of energy efficiency and renewable procurement beyond current mandates. Additional regulatory pressure will simply endanger grid reliability and push costs for zero and low emitting resources beyond reach.

Contrary to the positions of the IOUs and others that imposing CPUC rulings on non-jurisdictional POUs is necessary to achieve an increase in energy efficiency and renewable resource investments by POUs, the POUs have demonstrated in their various comments that their efforts in these areas are on par with, and in many cases in excess of, those of other utilities. Additional regulation by CARB is not necessary to create a “level playing field” nor is the creation of such “level playing field” relevant to the objectives of AB 32. Dueling sets of regulations imposed on vertically integrated and fully resourced POUs benefit only the IOUs and not the environment. They do not provide a cost effective mechanism to achieve GHG reductions but simply lead to increased rate pressures on consumers. These recommendations should be removed from the PD.

DRA suggests that clarification must be provided regarding the interplay between the RPS and GHG reductions. Modesto ID agrees. The PD should be revised to make clear that emission reductions achieved through RPS mandates must count toward GHG reduction goals. GHG reductions are an overarching objective. RPS is a tool for achieving such objective. Requiring duplication of reductions will further constrain an already overtaxed renewables procurement situation and threaten electric system reliability.

III. The Value of Emission Allowances Must Accrue to the Value of Customers of All Retail Service Providers.

Modesto ID urges the CPUC to withstand efforts of various parties to pre-determine the outcome of issues regarding allowance allocation in a California cap and trade system. The PD rightly defers such issues, including the determination of what portion, if any, of allowances shall be auctioned, and recognizes that all such issues require further examination. If a market system is put in place, allowances will be a critical, and contentious, component. The one thing that most parties appear to agree on is that the value of such allowances, whether allocated or auctioned, must go to benefit the ratepayers of all retail service providers that bear the cost to achieve GHG reductions.

IV. Costs of Compliance Cannot be Shifted Among Different Sectors.

Some parties note that gas sector reductions can be achieved through electricification methodologies. Modesto ID looks forward to working with other sectors to investigate what emission reductions can be accomplished through such methodologies. However, the sectors receiving the benefit of such reductions must bear the costs of achieving them. Any regulatory framework for the electric sector must prevent cost shifts among sectors in order to capture all available reduction opportunities.

V. CONCLUSION

Modesto ID supports California's GHG emission reduction efforts and has actively pursued energy efficiency savings and renewable resources. To successfully meet emission reduction goals regulated entities must have a variety of tools which they have the flexibility to apply in a manner best serving their own circumstances. Any market system included in this "toolbox" must be broad based, simple, stable and protected against manipulation. Emission reductions must be achieved in a manner that maintains reliability and keeps the lights on at a cost that consumers can bear.

Respectfully Submitted,

/s/ Joy A. Warren

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CERTIFICATE OF SERVICE

I, Linda Fischer, certify under penalty of perjury under the laws of the State of California that the following is true and correct:

On March 4, 2008, I served the attached:

REPLY COMMENTS OF THE MODESTO IRRIGATION DISTRICT ON INTERIM OPINION ON GREENHOUSE GAS REGULATORY STRATEGIES

on the service list for R.06-04-009 by serving a copy of each party by electronic mail, or by mailing a properly addressed copy by first-class mail with postage prepaid to each party unable to accept service by electronic mail.

Copies were also sent by first-class mail with postage prepaid to Commissioner Peevey and Administrative Law Judges Charlotte F. TerKeurst and Jonathan Lakritz.

A copy was also sent by first-class mail with postage prepaid to the California Energy Commission, Docket Office, MS-4, Re: Docket No. 07-OIIP-01, 1516 Ninth Street, Sacramento, CA 95814-5512.

Copies were also served by email to the CEC docket office and to Nancy Ryan, Commissioner Peevey's advisor.

A copy of the service list is attached hereto.

Executed on March 4, 2008, at Modesto, California.

/s/ Linda Fischer

Linda Fischer

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